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Research Paper

Designing wage subsidies for people with disabilities, as exemplified by the case of Flanders (Belgium)

La conception d'un dispositif de subventions à l'embauche de personnes handicapées, illustrée par le cas de la Flandre (Belgique)

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ABSTRACT

Wage subsidies are an important form of active labour market policy in many countries. This article draws on general, mostly economic research literature to discuss the main types and dimensions and the pros and cons of wage subsidies, and their relevance for targeted schemes for disabled people. An historical overview of employer-side schemes for disabled people in Belgium and Flanders illustrates the wide range of possible schemes. Some interesting studies of such schemes from Australia, Sweden, Denmark and specifically Flanders are reviewed. Crucial aspects of scheme design such as the assessment method used in the eligibility process and subsidy duration are linked to the conceptualisation of disability and Organisation of economic cooperation and development (OECD) recommendations in an attempt to provide some guidance on designing schemes which are tailored to the needs of disabled people and employers.

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R É S U M É

Dans beaucoup de pays, les subventions à l'embauche constituent un instrument important de la politique active de l'emploi. En se basant sur la littérature, principalement économique, le présent article examine les types et les dimensions essentielles, ainsi que les avantages et les effets indésirables de ce genre de dispositifs,

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avec une attention particulière pour les subventions destinées aux employeurs des personnes en situation de handicap. La grande variété des mises en œuvre est illustrée par l'historique des systèmes en Belgique et en Flandre. Quelques études intéressantes menées en Australie, en Suède, au Danemark et principalement en Flandre sont commentées. Finalement, les éléments clés d'un dispositif optimal, à savoir la méthode d'évaluation utilisée pour la détermination de l'éligibilité et la durée de la subvention, sont examinés à la lumière de la conceptualisation du handicap et des préconisations de l'OECD, en vue d'ébaucher un dispositif qui soit adapté aux besoins des personnes en situation de handicap et des employeurs.

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After the Second World War, it took some time before Belgium introduced a comprehensive framework for the employment of disabled people, but 1963 finally saw the launch of a National Programme for the Social Rehabilitation of the Disabled financed and operated by a new dedicated National Fund (Samoy, 1998). The programme was primarily aimed at integration into the open labour market. It included medical rehabilitation and active labour market policy measures (ALMPs) such as vocational training, job placement, targeted wage subsidies and, as a last resort, employment in sheltered workshops. However, during the second half of the last century sheltered work gradually became predominant, taking up more than two thirds of total programme outlays. The basic features of the Belgian approach have not changed radically over time, not even after disability employment policies were devolved to decentralised entities (Regions and Communities). Although wage subsidies were provided for in the initial legislation, they only gained momentum since the 1980s. In the Flemish Region, their number has been increasing rapidly in recent years.

Therefore the time seems right to have a closer look at wage subsidies as a policy instrument to help people with disabilities to find or retain employment, all the more because little analysis is available although a wide variety of schemes exists in Europe, the US, Canada and elsewhere (Bergeskog, 2001; OECD, 2010; Thornton & Lunt, 1997; ZEW-IAB-IAT, 2006). Some countries, like Denmark, Sweden and Belgium, make extensive use of this instrument, whereas in other countries, like Germany and France, it remains rather marginal.

The main focus of this article is on the design of subsidy schemes. Before zooming in on Belgium and Flanders (section 2), we discuss the main types and dimensions, and the pros and cons of wage subsidies in general and their relevance for targeted schemes for disabled people (section 1). We then review the scarce international and Flemish research literature (section 3) and comment on key aspects of scheme design (i.e. type of assessment used in the eligibility process and subsidy duration) in the light of the definition of disability and recommendations of the Organisation for economic cooperation and development (OECD) (section 4). The conclusion assesses the current Flemish scheme from this perspective.

Wage subsidies as an active labour market measure

Types and dimensions of wage subsidies

Wage subsidies have been used since the 1930s, but they are still causing heated debate among outspoken proponents and detractors (e.g. Phelps, 1997; Prasch, 2002). They consist in financial incentives to improve the functioning of the labour market. Employer-side or firm-side subsidies aim at increasing the demand for work by reducing labour costs of employing disadvantaged workers, whereas employee-side earnings subsidies aim at increasing labour supply by improving income for low-earnings or low-wage workers (Lee, 2005). Financial incentives for employers can take the form of direct payments, a reduction of taxes or social security contributions, or the lowering of labour costs

by the so-called “activation” of unemployment or disability benefits, whereby workers are allowed to keep all or part of their benefits and employers may reduce wages accordingly. These subsidies can be applied to total employment of the firm, net increase in employment, or gross flows into employment from new hires or layoffs (Katz, 1996). Existing schemes in OECD countries present a wide variety (Lee, 2005). In what follows, we focus on employer-side subsidies, leaving aside in-work benefits such as the British Working Tax Credit or the American Earned Income Tax Credit.

Four dimensions, which are particularly relevant to the description and comparison of schemes for disabled people, are target population, eligible employers, and subsidy rate and duration. With regard to target population, generic or general wage subsidies are granted for the employment of all workers or those in low-paid jobs, whereas categorical or targeted schemes only provide subsidies for certain specific sociodemographic categories of workers such as young labour market entrants, the long-term unemployed, the low-skilled, older jobseekers or disabled people. This type of scheme requires criteria to identify those belonging to the target group, and mechanisms for applying these criteria. In the case of age, duration of unemployment or qualification, this is quite straightforward but, as we will see later, identifying eligible disabled people is much more complicated. Most schemes are intended as an incentive to get people into work, and therefore target the unemployed or the inactive. Schemes for disabled people may also aim to prevent those who became disabled at work from losing their job. Reducing labour costs for this target group by means of a subsidy may compensate for lower productivity, thereby improving equity. Needless to say this does not imply that people with disabilities are always less productive, whatever their impairment and work environment (see point 4).

Subsidy schemes can also differ as to eligible employers. Some are targeted exclusively at the private (profit or non-profit) sector or at the public sector; others cover both sectors¹.

The subsidy rate may be set at different levels and remain unchanged for the whole subsidy period or vary over time according to a set schedule. Subsidies may be calculated as a fixed amount (or a set of such amounts) or as a fixed rate, i.e. a percentage of eligible labour costs (or a set of such rates), in which case the amount is often capped, for instance on the basis of minimum wages. In EU countries, schemes for disabled workers also have to comply with EU legislation on State aid and must not exceed 75% of wage costs, including social security payments over any given period of employment. A disabled worker “has to be recognised as disabled under national law or to have a recognised limitation resulting from physical, mental or psychological impairment” (European Commission, 2009; Majcher-Williams & Foecking, 2010: 20). As a rule, wage subsidies decrease over time, but, in the case of disabled people, the subsidy may need to be increased as the worker's disability or health condition worsens.

Subsidies usually have a limited duration, ranging from a few weeks to a few years, the assumption being that the subsidy period will allow the worker to prove he or she can contribute to the activities of the business or organisation, and full productivity will have been reached by the time the subsidy expires. By contrast, subsidies for disabled people may often need to be extended, even repeatedly because the work capacity has not improved. Sometimes subsidies are even granted for the duration of the employment.

Pros and cons of wage subsidies

Targeted employer-side subsidies are advocated as a flexible and efficient tool to improve employment because job creation and hiring decisions are left in the hands of private firms, while costs are partially borne by the government (Katz, 1996: 2). They are compatible with the principles of social market economy and reward employers for showing a desired behaviour instead of forcing them into compliance (Semlinger & Schmid, 1985: 156). In the long run, wage subsidies are said to have positive effects on employment prospects by providing on-the-job training and work experience (Neubäumer, 2010), and to reduce employers' uncertainty about the employability of job applicants (Jaenichen & Gesine, 2007: 5–6).

¹ In OECD terminology, the term “wage subsidy” is applied only to subsidies for private sector jobs, whereas “employment subsidy” covers both wage subsidies and direct job creation in the public sector (100% subsidy). In what follows, the generic term “wage subsidy” covers all subsidies granted under the Belgian and Flemish schemes to private profit and non-profit employers, educational establishments and local authorities.

However, researchers also identified a number of adverse effects on both scheme participants and non-participants who, depending on the scheme, may be more or less strong (Calmfors, 1994; Katz, 1996; Lee, 2005; Semlinger & Schmid, 1985). Participants may suffer a “locking-in effect” because having a subsidised job limits their search for a non-subsidized job (Bernhard, Jaenichen & Gesine, 2007: 5; Van Ours, 2002). Targeting of subsidies may also be stigmatising and negatively affect employment opportunities of the target group (Marx, 2001: 81). The main indirect macro-effects identified in the literature are deadweight or windfall effects, substitution effects, and displacement or crowding-out effects. Deadweight losses occur when the scheme subsidises hiring that would have occurred anyway, providing “windfall” profits to employers. Substitution effects are found when employment gains among targeted workers come at the expense of other workers in the firm, who are replaced by subsidised workers. Subsidised workers themselves may in turn be replaced by new subsidised workers at the end of the subsidy period, in what has been called a churning effect (Burns, Edwards & Pauw, 2010: 3). Displacement takes place when jobs created by the subsidy scheme are at the expense of regular jobs elsewhere in the economy as a result of a distortion in competition. Researchers point to the fact that these effects on non-participants, the relative weight of which is difficult to estimate, may significantly lower the net employment effect of subsidies (e.g. Card, Kluge & Weber, 2009; Lee, 2005; Zielkowski, 2009). However, the consensus seems to be that subsidies have a positive employment effect, especially when a longer timeframe is considered (Bernhard et al., 2007; Card et al., 2009).

As far as wage subsidies for the disabled are concerned, some of these adverse effects may be unlikely to occur and others may, to a certain extent, be welcomed. If the subsidies do not exceed compensation for actual loss of productivity, they merely create a level playing field regarding working capacity and should not create substitution effects (Österle, 1992: 50). Assuming some form of positive action is needed to provide disabled people with job opportunities, a certain level of substitution at the expense of jobseekers with better prospects seems acceptable (Bernhard et al., 2007). Deadweight, however, is a real threat to programme efficiency. It may be caused by undue widening of the definition of the target group to include other categories of hard to employ individuals, or disabled people whose work ability is not or no longer reduced. Locking-in becomes a problem when subsidies are not time-bound and subsidised workers with a “normal” job performance are not offered regular contracts. Finally, as for employment effects of subsidies for disabled people, they are believed to be quite modest (Mangan, 1990a; Semlinger & Schmid, 1985).

But let us now turn to subsidy schemes in Belgium and Flanders. Because the performance of labour market measures is influenced by the context in which they operate, we first provide some relevant background information.

Wage subsidies for disabled people in Belgium and Flanders

Some background information on Belgium and Flanders

Belgium is a federal state consisting of three regions (Flemish, Walloon and Brussels-Capital Region) and three language-based communities (Flemish, French and German-speaking Community). These entities each have their own government since 1990, but in Flanders the Region and Community governments have been merged. They are competent for most aspects of active labour market policies, whereas social protection benefits, quotas for federal civil servants and the general rules relating to the employment relationship are a matter for the federal Government. Anti-discrimination is a shared competency. Disabled people are protected against discrimination at work by both federal and regional legislation but very few cases have been brought to court. The laws also provide for positive (affirmative) action.

The country has a well-developed social security system with universal health coverage. The mandatory unemployment insurance does not offer overly generous benefits, but is quite unique in that benefits last for the duration of unemployment and school-leavers are entitled after a “waiting time”. The number of people on “invalidity benefit” has been rising steadily over the years, albeit not as fast as in the Netherlands and the UK (Velche, 2006) and stood at 265,000 at the end of 2009; expenditures reached nearly 3000 million euros, or about 11,000 euros per head. Until the quickening

pace caused alarm in recent years (+12% in two and a half years in Flanders), “activation” of recipients never was an issue.

As regards employment and job retention for disabled people, Belgium (and especially Flanders) always had a preference for voluntary measures, like wage subsidies, over statutory obligations (Binamé, 2004). Contrary to countries such as the UK, France and Germany, it never placed a duty on private businesses to employ a quota of disabled people. The rather modest quotas for the federal and regional public administrations (3%) are not supported by sanctions, and overall compliance is low (about 1% is reached). Belgium does not grant official (severely) disabled worker status, nor is there special dismissal protection for disabled workers, which may not be a bad thing because the employment effects of these measures are not always positive (Humer, Wuellrich & Zweimüller, 2007; Österle, 1992). The legal obligation on employers to rehabilitate employees who become disabled while in work does not go beyond what is covered by group insurance, and employers are entitled to wage subsidies for these workers. There is also no obligation to retain a subsidised worker for a certain period of time after subsidy expiry. Sheltered employment for disabled people is very important. In 2010, Flanders spent 220 million euros on wages for about 16,000 disabled employees in sheltered workshops, or over 13,000 euros per head.

Flanders has mainstreamed active labour market policies for the disabled into the regular public employment service (PES) in 2006. In the rest of the country they are still operated by dedicated institutions. The Flemish PES administers and finances the interventions, but service delivery is mainly in the hands of private non-profit organisations, such as special job placement services and special training centres. During the training, which is mostly provided on-the-job and lasts for up to one year, trainees continue to receive unemployment or disability benefits, topped up with a small training allowance. To reach their placement targets for disabled people, delivery organisations often resort to wage subsidies, whether or not combined with other forms of support for disabled workers such as grants for workplace adaptations and special equipment. In addition, hard of hearing and deaf workers can claim workplace assistance of sign language interpreters. Both the Walloon and the Brussels-Capital Region also grant wage subsidies and workplace adaptations grants (Samoy, 2010).

Belgium has a population of eleven million, 60% of which lives in the Flemish Region, 40% in the Walloon Region and 10% in the Brussels-Capital Region. Based on the EU Survey on Income and Living Conditions (SILC 2008), 14.6% of the population in employment (aged 15 to 64) suffers from long-standing illness or health problems, whereas 10.9% is “limited” or “strongly limited” (i.e. “disabled”) in its daily activities by longstanding illness or health problems. These figures are slightly lower than the averages for the 27 EU Member States (EU-27), standing at 19.7% and 13.0% respectively (Eurostat, 2010: 34). The Belgian employment rate amounts to 63% among people without limitations and to nearly 40% among disabled people, compared to the EU-27 averages of 65% and 45%. So there clearly is room for improvement.

A short history of wage subsidy schemes for the disabled in Belgium and Flanders

Identifying the factors that shaped the wage subsidy schemes for the disabled since the early 1960s is an arduous task because little information is available. Employment for disabled people never has been high on the public or political agenda, and there is no historical evidence of grand policy debates, e.g. about the relative merits of wage subsidies versus quota systems or sheltered employment (Samoy, 1998). However, it is certain that the idea of granting subsidies was generally accepted; only the design of schemes generated some moderate discussion. Because crucial decisions were mostly taken during scarcely documented negotiations between both sides of industry, written records, which might shed some light on the rationale behind choices, are hard to come by. Until 2006, few regular statistics were published; even the official number of granted subsidies later turned out to be unreliable. Yet the general impression is that the shift from one scheme to the next was the outcome of a political process whereby employer organisations, trade unions, private agencies, and organisations of disabled people kept pushing for more generous provisions and the government complied. This year-long consensus is now under threat because the recent system review in Flanders is mainly motivated by the government's wish to contain costs. To prevent the reader from getting lost

Table 1

Wage subsidy schemes for disabled people in Belgium and Flanders (1965–today).

	Scheme 1	CAO-26 ^a	VIP ^a	VOP I ^a	VOP II
<i>Time frame</i>					
First year of operation	1965	1977	1998	2008	2010
Last year of operation	1995	2008	2008	2010	–
<i>Target population</i>					
New hires	x	x	x	x	x
People in work		x	x	x	x
<i>Eligible employers</i>					
Private sector (profit and non-profit)	x	x	x	x	x
Public (including local authorities, education)				x	x
Self-employed				x	x
<i>Calculation of the subsidy</i>					
Variable % actual wage costs (uncapped) (uncapped)		x			
Variable % actual wage costs (capped)				x	x
Fixed % of minimum wage			x		
Variable % of minimum wage	x				
<i>Duration of the subsidy</i>					
Time-bound (not renewable)	x				
Time-bound (renewable)		x			x
Unlimited in time			x	x	
<i>Involvement of Social Inspectorate</i>		x			

^a CAO: collective agreement (*collectieve arbeidsovereenkomst*); VIP: Flemish integration subsidy (*Vlaamse inschakelingspremie*); VOP: Flemish support subsidy (*Vlaamse ondersteuningspremie*).

in the rather complicated historical overview that follows, Table 1 compares the successive schemes on a number of crucial dimensions.

From the early 1950s until 1990

From the 1950s, disabled people in Belgium had access to a temporary wage subsidy scheme for the hard to employ. In 1963, in the context of the above-mentioned National Programme, a first targeted scheme was set up. It provided for a small private sector subsidy with a maximum duration of 1 year for disabled jobseekers who were registered with the National Fund and had been out of work for at least 6 months. Depending on age and unemployment duration, the subsidy rate amounted to between 20% and 40% of minimum wage costs; it did not vary according to productivity. Five years later, the rates were replaced by graduated fixed amounts, which remained unchanged until the scheme was scrapped. This first scheme was not very successful. In the 30 years of its existence, no more than about 3500 subsidies were granted nationwide, mainly before 1980.

Following a factory shutdown in the mid-1970s, the Social Inspectorate discovered that the employer had been paying his disabled workers according to productivity, leaving some of them with wages too low to be entitled to unemployment benefits. To prevent future unregulated underpayment, a collective agreement (CAO in Dutch), commonly known as “CAO-26”, was concluded in 1975. It gave its name to a new subsidy scheme launched two years later. The agreement provides that disabled employees in the open labour market have to earn at least the going minimum wage, payable in part by the employer and in part out of public funds. The implementing regulation stipulates that private employers taking on or retaining a registered disabled person may claim a subsidy of between 5% and 50% of eligible wage costs provided they pay their disabled employees the full going wage. Subsidy granting was a two-step process: first a National (and later Flemish) Fund officer proposed a subsidy rate based on an on-site visit, medical information about the impairment, and comparison with relevant cases, whereupon the Social Inspectorate took the final decision by allowing the employer to deviate from the sector-specific minimum wage. Because regulations did not specify the types of evidence to be used in the assessment process, and caseworkers were not provided with standardised tools for measuring productivity loss, employers had a lot of room for bargaining. This is

probably the reason why so many subsidy rates fell somewhere halfway between the minimum and the maximum rate. Furthermore, the considerable regional variation, which cannot be explained by regional differences in the severity of impairments, proves that the Social Inspectors also had a large discretionary power. Finally, it should be noted that the disabled worker for whom the subsidy was granted and trade unions representatives had no say in the matter.

The subsidy had a duration of up to one year but could be renewed annually following an on-site assessment of the worker's productivity by the Social Inspectorate. Not all employers were keen on these visits because inspectors took the opportunity to control other aspects, e.g. work schedules. In practice, granted subsidies were hardly ever revoked. It is therefore not surprising that employers who had exhausted their rights to the old time-bound subsidy applied for a new "permanent" CAO-26 subsidy. Between 1977 and 1990, all subsidies were paid out by the National Fund. At the end of 1990 – the first year for which regional statistics are available – there were about 3000 CAO-26 participants, of which 2000 in Flanders and 1000 in the rest of Belgium.

From 1991 until present time

In 1991, following regional devolution and subsequent institutional reform, disability employment policy, including the administration of wage subsidy schemes, was transferred from the National Fund to three newly-established regional funds. In what follows, we only discuss developments in Flanders. The Flemish Fund immediately set up a new registration process based on an assessment of the disability by external multidisciplinary teams, which then proposed suitable support measures. The final decisions on entitlement to employment support were taken by dedicated independent multidisciplinary committees.

During the first half of the 1990s the old subsidy scheme was even less popular than before because employers immediately applied for a CAO-26 subsidy. Eventually it was discontinued. In the mid 1990s, new Flemish non-profit "Pathways to Work" services for disabled jobseekers started to operate. They soon felt the need for a flexible wage subsidy that would be easier to integrate in the placement process than the CAO-26 with its slow and rather employer-unfriendly eligibility and review procedures. Hence, at the end of 1998, a new private sector subsidy was created, the "Flemish integration subsidy", shortly called VIP. Primarily aimed at jobseekers, it was also available to people who became disabled while in work. This new flat rate subsidy of 30% of the gross minimum wage in the relevant business sector was explicitly meant to compensate employers for the extra costs incurred during the initial period of adaptation to the new working environment and for possible loss of productivity. It was not time-bound and could be transferred to a new employer in case of job change. As a consequence, the initial eligibility assessments by the Flemish Fund were not subjected to review; the subsidy acted as a kind of permanent voucher. During the period of coexistence of the CAO-26 and VIP schemes (1998–2008), VIP employers sometimes preferred to switch to the CAO-26 despite its temporary nature and the involvement of the Social Inspectorate, because payments were more generous: the VIP only amounted to 30% of the gross minimum wage, whereas the CAO-26 was calculated over the total wage and could amount to 50%.

At the end of 2008, the two schemes in operation (CAO-26 and VIP) were merged into the new "Flemish support subsidy", shortly called VOP, in such a way that no employer was worse off than before. This operation coincided with an important institutional reform aimed at mainstreaming employment policies and programmes for disabled people by passing political responsibility from the Minister for Welfare to the Minister for Work. The administration was transferred from the Flemish Fund (renamed "Flemish Agency for persons with disabilities" in 2006) to the Flemish PES (VDAB)². At the time of the merge, there were just over 5000 subsidies, nearly half of which were VIPs.

The VOP scheme has characteristics of both its predecessors, and its eligibility criteria draw on those of both schemes. Access is almost automatic for some categories of disabled people, e.g. people

² The PES (*Vlaamse Dienst voor Arbeidsbemiddeling en Beroepsopleiding* [VDAB]) determines eligibility for sheltered employment, but workshops are financed by another mainstream Agency, the Flemish Subsidy Agency for Work and Social Economy (*Vlaams Subsidieagentschap voor Werk en Sociale Economie* [VSAWSE]). The special Agency for people with disabilities (*Vlaams Agentschap voor Personen met een Handicap* [VAPH]) stayed in charge of social care services.

with severe physical or mental impairments, those in receipt of certain disability allowances, and graduates from special education. For other applicants an assessment by a specialised internal or external team is required. Final decisions on eligibility and subsidy rates are taken by the PES without involvement of the Social Inspectorate. The subsidy amounts to 40% of eligible labour costs (capped at twice the minimum wage) during the first year of employment, 30% during the next three years and 20% from the fifth year onwards for an indefinite period of time and without further review. However, the employer may apply, for an upgrade to up to 60% at any time when this is justified by circumstances. As advocated by policy research (Vos & Bollens, 2005), VOP subsidies were also made available for employment in education, for new hires with local authorities and for self-employment. The greater visibility, broader eligibility base, attractive subsidy levels and lack of review of this new scheme boosted take-up. Unfortunately, researchers' warnings that the absence of regular reviews would increase the risk of deadweight were not heeded³.

The launch of the VOP marked the onset of a sharp rise in the number of participants, which, by the year 2010, had already increased by around 2000. The economic crisis and a change of government led to an overhaul of the system after only two years of operation, with the aim of containing costs. As from October 2010, subsidy levels in the modified scheme (which we call VOP II for clarity's sake) drop to 20% already in the third year. After a stint of five years with the same employer, the subsidy is only extended if an assessment of the worker's productivity in the subsidised job shows a continuing need for it. As before, the employer may apply for an upgrade to a maximum of 60% at any time. In both these cases, the employer has to show what the subsidy money has been used for and what costs will be incurred in the future. To streamline this process, PES caseworkers only recently developed a long-overdue instrument based on on-site visits and interviews with the subsidised worker and his or her employer and colleagues. Withdrawal of the subsidy is open to appeal. Despite these new restrictions, the number of subsidies kept rising and reached just over 8000 at the beginning of 2011. Expenditures rose from 40.3 million euros in 2006 to 64.5 million euros in 2010. However, further scheme modifications risk undermining employers' confidence in the continuity of support (Jansson, 2010: 15; Rendenbach, 1990: 183).

Comparison of schemes in operation between 1963 and present days

As appears from Table 1, schemes in Belgium (and later Flanders) tended to become broader and more generous until the Flemish government stepped on the brake in 2010. The first scheme (1963) was also the most restrictive. Access was limited to unemployed people taking up work with a private employer and employers were only granted a variable percentage of the minimum wage for up to one year. The CAO-26 (1977), which coexisted with the earlier scheme until 1995, had a broader target group since it was also available to people in work. It was also more generous as it was based on a percentage of actual wage costs (and not of the minimum wage) and could be renewed, even repeatedly. However, rather tedious and long administrative procedures and the involvement of the Social Inspectorate lessened its attractiveness to employers. The VIP (1998), which was not time-bound but sometimes less generous, provided a simpler alternative. The VOP (2008), which replaced both the CAO-26 and the VIP, was unlimited in time and further broadened the scope of wage subsidies to local authorities, education and self-employment. This trend was only broken by a recent overhaul of the system (VOP II) imposing restrictions on subsidy duration and speeding up the pace of subsidy rate reduction.

Relation to other targeted wage subsidy schemes

At present, both Flanders and Belgium grant wage subsidies for a wide variety of "competing" categories of disadvantaged workers, possibly overlapping with the category of disabled people. This leads to a complex tangle of allowed or prohibited combinations which is not always resolved in present regulations. For instance, Flanders grants subsidies for both the over-fifties and disabled people, which

³ During a meeting in preparation of the VOP I reform, the then Flemish minister for Work showed his appreciation for the research by speaking the words of wisdom "deadweight, deadweight, there is deadweight everywhere".

may be combined with one another. The present Flemish wage subsidy for disabled workers (VOP II) may also be combined with a federal subsidy for other target groups (low-skilled young people, over-fifties or long-term unemployed), if the worker belongs to the eligible group and is entitled to unemployment benefits. The last criterion, which does not apply at the Flemish level, is linked to the fact that federal subsidies (ACTIVA scheme) take the form of “activation” of unemployment benefits: jobseekers who find a job may keep their unemployment benefits for a variable period of time, while their employer may deduct this amount from the net wage payable.

The existing federal subsidies for disabled people were abolished in the early nineties but were reintroduced in 2011 by including this category of jobseekers into the ACTIVA scheme. The subsidy amounts to a maximum of 500 euros a month for two years and is financed through “activation” of unemployment benefits, supplemented by a dedicated fund for those not entitled to unemployment benefits.

Because information is not routinely exchanged between the federal and the Flemish PES, nothing is known about the numbers and characteristics of Flemish disabled workers with a federal subsidy. However, it is clear that paying multiple unrelated subsidies for the same worker or creating new federal subsidies where regional ones already exist, will do little to improve efficiency. Moreover, the proliferation of subsidies harbours the danger of habituating employers to financial incentives (Semlinger & Schmid, 1985: 159), blunting the competitive edge subsidies are intended to provide (Brussig, Schwarzkopf & Gesine, 2011: 5; Rendenbach, 1990: 49). But let us now have a closer look at available research evidence.

Research on targeted wage subsidies for disabled people

International findings on wage subsidies for disabled people

In view of the abundance of literature on wage subsidies, the paucity of research on schemes for disabled people is rather surprising. Without pretending to be exhaustive, we present a short overview. One of the oldest studies we found is based on a mail survey among Australian firms (Mangan, 1990a, 1990b). It examines how altering both the subsidy level and duration influences job offers. At the time of the survey, the Australian job-start scheme provided a generous subsidy of over 50% of the average adult male wages. Take-up was low since five years after the launch of the scheme only some 2000 subsidies had been granted. The main finding was that job offers for people with disabilities are not noticeably responsive to wage subsidies. Doubling the subsidy rates would only generate a 20% increase in job offers from larger firms and a 33% increase from smaller firms. Increasing the subsidy duration to one or two years would only bring larger firms to increase their job offers by 17 and 21% respectively (Mangan, 1990b: 22). The corresponding results for smaller firms (32% and 37%) suggest that they are more wage elastic in their job offers and hence more likely to be subsidy-sensitive. Unfortunately, smaller firms were also the least informed about the scheme. The evidence suggests that price variables may be even less important for job offers to disabled people than they are in the labour market in general. Among other factors likely to influence employer's hiring decisions, Mangan cites “uncertainty, discrimination (by themselves or in deference to other employees or customers), or economically-rational considerations of wage productivity” (Mangan, 1990a: 211).

More recently, employers' attitudes have been explored by the Swedish researchers Knutsson and Persson (2001) in a telephone survey with a large random sample of private and public enterprises. They found that, in the five years preceding the interview, only 14% of contacted employers had considered recruiting a job applicant with an occupational disability. Of those employers, 72% eventually hired this person, in more than 60% of cases with some form of wage subsidy. The smaller the size of the enterprises, the larger was the share of employers receiving a subsidy. Satisfaction proved high: 64% of employers stated the subsidy provided full compensation, 29% saw only partial compensation and less than 5% saw no compensation at all. An interesting finding is that 34% of hiring employers declared that the outcome exceeded their expectations, the main reasons being that the worker performed better than expected and had a positive influence on the work of colleagues, and sick leave was lower than expected. A replication by Statistics Sweden found that 15% of employers contacted had considered recruiting a disabled job applicant and that almost 70% of hiring employers received a

wage subsidy (Riksrevisionen, 2007). Satisfaction remained high (70% full compensation; 28% partial compensation), but fewer employers (16%) claimed the subsidised employee performed better than expected. Both studies report a lack of information among employers about available support and responsible public services.

There is some research on the working conditions and job satisfaction of wage subsidy workers. In Sweden, for instance, Leymann (1992) found that disabled people in subsidised jobs with non-profit organisations were five times more likely to be mobbed than their non-disabled colleagues. Using interviews with disabled workers and people in their working environment at Uppsala University, Eriksson (1996) discovered that, while some workers enjoyed favourable working conditions, others felt despised and even unwanted and suffered from prejudice, social isolation and underemployment. These negative findings were not confirmed in a postal survey among workers in the non-profit sector in the Swedish city of Luleå (Blomberg, 2002). A large majority were satisfied with their tasks, their working environment and contacts with colleagues. Yet another Swedish research (Hännestrand, 2004), based on interviews with a large number of people with visual or mobility impairments, provides some evidence that the level of satisfaction with the job setting (self-employment, open labour market with or without wage subsidy, sheltered setting) depends on the type and degree of disability. Indeed, it was found that visually impaired workers were most satisfied with a regular job and least satisfied with a wage subsidy job, whereas the reverse was true for people with mobility impairments. Although the visually impaired respondents were less satisfied in all settings, they were three times more disappointed with their subsidised job than those with mobility impairments. Their main complaint was that they felt stuck because the subsidised job was not turned into regular employment. According to Hännestrand, this could be explained by the fact that severely visually impaired people only find subsidised jobs, whereas people with less severe visual impairments are more likely to find regular jobs.

As far as evaluation research is concerned, the study of the Danish *flexjobs* scheme for long-term sick or disabled people by Datta Gupta and Larsen (2010) seems to be one of the rare econometric analyses available (PHR, 2009). It is based on two surveys merged with register data about labour market status, including receipt of a disability pension. At the time of data collection (2001), the scheme granted a wage subsidy for the duration of tenure amounting to one third, half or two thirds of wage costs (capped at the negotiated minimum wage) according to the reduction in work capacity. Compared to regular employment, *flexjobs* offer reduced working hours, adapted working conditions, and/or restricted job demands. Since the introduction of the scheme, the number of beneficiaries rose from 6700 in 1999 to 40,600 in 2006. For the examined age group (18 to 49 years), a substantial positive employment effect was found, but no discernable effect on outflow to disability pensions. Results seem to suggest that the scheme provided jobs for people with less severe disabilities, whereas those with more severe health problems were granted a disability pension. The authors argue that, in settings characterised by universal health insurance and little employment protection, like Denmark, schemes such as *flexjobs* can strongly increase employment among the relatively healthy disabled with a reduced work capacity, provided adverse scheme effects are minimised and disability pension or other exit schemes are redesigned (Datta Gupta & Larsen, 2010: 26–27)⁴.

A rather bleak picture emerges from a qualitative evaluation of the same scheme based on in-depth interviews with employees, employers, social workers and other stakeholders by Hohnen (2001), cited in PHR (2009: 88). Although employees were happy to be in work, it was found that they often held low-paid and low-skilled odd jobs for which they were sometimes overqualified. Interviewees reported negative consequences on their self-esteem and relationship with colleagues, loss of entitlement to unemployment benefits and conflicts over pay rate. The author concludes that scheme participants rather held the status of social clients than of employees and were in danger of being marginalised within employment.

⁴ A previous analysis (Datta Gupta & Larsen, 2008) found much stronger negative effects, which were reported in PHR (2009) and OECD (2010: 160 “enormous substitution and deadweight loss”).

Flemish findings on wage subsidies for disabled people

Research in Belgium and Flanders is also scant. In the nearly 50 years of their existence, the subsidy schemes have only been the object of three studies, the first of which took place in 1985 (Molleman, 1985). It focused on the main scheme at the time (CAO-26) and was based on face-to-face interviews with all employers in the Flemish province of Limburg receiving subsidies. The researcher presented a detailed picture of the employers and the employees participating in the scheme, which was confirmed by later studies and official statistics. Two important findings were that one employer in three declared that the disabled employee would not have been recruited or retained without wage subsidy, whereas nearly three employers out of 10 declared that the impairment of the subsidised worker did not cause any productivity loss at the time of the interview, either because he or she never had a reduced capacity for work or because initial problems had been overcome in the meantime. The results suggest that the employment effect of the subsidy is dependent on the nature of the disability: for workers with an intellectual impairment 66% of employers declared that withdrawal of the subsidy would lead to dismissal, compared to 36% for workers with a physical impairment and 21% for workers with a sensory impairment. Despite the fact that CAO-26 subsidies were supposedly tailored to the work capacity and were reviewed annually, the researchers found that no subsidy had ever been withdrawn and rate reductions were extremely rare.

It took 20 years before a second survey was carried out by Vos and Bollens (2005), using telephone interviews with a stratified random sample of Flemish employers and face-to-face interviews with a separate random sample of disabled workers. Additionally, the researchers conducted oral interviews with medical professionals and Flemish Fund officers involved in the eligibility process, and analysed administrative data. The research focused on the two subsidy schemes coexisting at the time, the CAO-26, which was temporary only on paper and the unlimited VIP. Of the 4818 subsidies in operation, 60% were CAO subsidies.

The study discusses the implementation of the schemes, and the quality of subsidised jobs (control over work situation, workplace adaptation, etc.), and provides an assessment of employment effects. It was found that most subsidies were granted to small or medium-sized businesses with less than 50 employees. The majority of employees were men aged between 24 and 45 doing manual work, but jobs ranged from kitchen hand to director of an organisation. On average, the disabled respondents claimed to be satisfied to very satisfied with the different aspects of their job. A surprising finding is that 20% were not aware of the fact that their employer received a subsidy, which shows how little workers were involved in the eligibility process. Most employers claimed the granted subsidy rate was adequate. When asked to rank five aspects of a subsidy according to importance, employers found coverage of total productivity loss to be most important and certainty about the amount of the subsidy prior to recruitment next important. As far as possible deadweight effects are concerned, Vos and Bollens (2005) found that nearly half of the employers claimed the disabled worker would not have been recruited or retained without subsidy. However, two out of five CAO-26 employers and three out of five VIP employers said they were pleased with the money, but felt no real need for it. On the other hand, half of the interviewed disabled workers stated the subsidy contributed to their job security.

Based on their findings, the researchers advised to merge both schemes into a single two-step scheme. During a first, time-bound stage employers would be granted a fixed percentage of wage costs as compensation for the costs of job introduction and initial training, and for possible loss of productivity. After a thorough assessment, in a second stage compensation would only pertain to a proven persisting reduction in work capacity. To better target the subsidy to real needs and improve the transparency of the subsidy process – a real black box according to Vos and Bollens – they also advised to impose an accounting obligation on employers instead of simply paying without asking questions.

Recently a third Flemish study (Roosens et al., 2010) examined the quality of VOP jobs and workers' awareness of the destination of the subsidy money. It was based on a postal survey with a stratified random sample of VOP employees (some 75% converted CAOs or VIPs) and workplace interviews with a limited number among them. Working conditions were assessed using the measurement tool of the regular working conditions survey (Eurofound, 2007). This allowed for comparison not only with the

general population but also with a group of survey respondents claiming to suffer from longstanding health problems and/or disabilities. It was found that working conditions in subsidised jobs were similar to those of the general population, but better than those of people with longstanding health problems and/or disabilities. According to [Roosens et al. \(2010\)](#), this is linked to the fact that there are more older workers and more people who became disabled at work among the survey population of self-declared “disabled” individuals, whereas the VOP population comprises more young people who were already disabled when they started looking for a job. The influence of type of disability could not be established owing to lack of information for the survey population. The better quality of the VOP jobs may also be explained by careful placement by the “pathway to work” services. As was the case in the study by [Vos and Bollens \(2005\)](#), some respondents only found out their employer received a wage subsidy when contacted to participate in the survey. The most striking finding, however, was that the majority either had no idea to what use the money was being put or declared that it was not or minimally used to support their employment. It is, therefore, not surprising that the involvement of VOP employees in the allocation of the wage subsidy at the workplace is low. Nearly four out of five have no say at all, some 10% have a limited involvement, another 10% have substantial involvement and 1% decide autonomously what the money is used for. Half of the respondents were also unable to say how termination of the subsidy would affect their tenure. Of the other half, most felt that their job would be in danger, whereas only one third were confident there would be no negative consequences.

Summary of research findings

The international studies reviewed show that employers and disabled workers are generally satisfied with wage subsidies. The picture is less positive for schemes only offering special low-skilled and low-paid jobs, and for non-profit organisations sometimes providing dead-end jobs. Flemish research shows high levels of employer and worker satisfaction in both the profit and non-profit sector and finds no evidence that disabled people feel “stuck” in subsidised employment or that subsidised jobs are unviable or confined to the lower end of the job market. Different studies point to the important role of small firms as a job market for disabled people. Flemish research did not confirm the finding that they often are unaware of available support, but found a quite shocking lack of information and involvement of the disabled workers themselves. The efficiency of wage subsidy schemes is greatly threatened by potential deadweight loss. The Danish *flexjobs* study and the three Flemish studies show that schemes for disabled people are no exception. In view of the suggestion by [Marx \(2001: 74\)](#) that evaluations based on interviews with employers might underestimate the deadweight loss, as a result of selection distortion and opportunistic responses, the figures in the Flemish studies are probably even underestimated. Scheme design, which we now turn to, should help minimising this adverse effect.

Design of wage subsidy schemes for people with disabilities

Current leading conceptualisations of disability provide some guidance as to how wage subsidy schemes for disabled people should be designed. According to the [UN Convention on the Rights of Persons with Disabilities \(2008\)](#), disabilities are “long-term physical, mental, intellectual or sensory impairments which in interaction with various barriers may hinder [their] full and effective participation in society on an equal basis with others”. Based on the International Classification of Functioning, Disability and Health (ICF, [WHO, 2001](#)), the Flemish Community defines an occupational disability as “every longstanding and important problem to participate in working life, due to the interaction of mental, psychological, physical or sensory impairments, limitations in the performance of activities and personal or external factors” (our translation)⁵.

These definitions are contextual in the sense that they take into account characteristics of both the individual and the environment, and define disability as the result of the interplay between them. Until some 40 years ago thinking about disability was dominated by the medical model, which viewed

⁵ Decree on the Flemish Public Employment and Vocational Training Service, 2008, *Belgian Official Journal* 27.1.2009, p. 5170.

disability as an attribute of the individual caused by a disease, a trauma or another health condition, and requiring interventions directed at the disabled individual. This view was challenged in the 1970s by the social model viewing disability as a socially created problem requiring interventions in the physical and social environment to remove disabling barriers. The biopsychosocial model synthesises the medical and the social model in that it recognises that biological, psychological and social factors all play a significant role in human functioning in the context of disease or illness. Interventions should therefore be directed at both the individual and the environment (Smart, 2009; Stiker, 2007).

Wage subsidies as defined here consist of an amount of money paid to a disabled person's employer, but it can be argued that the use of the money is put to usually changes the environment rather than the disabled individual. As a means of overcoming employers' hesitations or misgivings about a prospective worker's productivity, absenteeism, dependability or interaction with others, a wage subsidy is an intervention in the "attitudinal environment". As a financial compensation for reduced productivity it also brings about an environmental change because expectations as to output quantity or quality are lowered. Using the subsidy as compensation for the working time colleagues spend to support a disabled coworker would also be an intervention in the worker's environment, whereas spending it on additional training for the disabled worker would be a capacity improvement and hence an intervention directed at the disabled individual.

The relationship between the medical and the biopsychosocial models of disability on the one hand, and scheme design on the other hand, is reflected in the two main methods to determine eligibility for a wage subsidy, leading to two types of schemes (Österle, 1992: 48). According to the first method, eligibility decisions are based exclusively on information about the nature, the degree and the (expected) duration of the applicant's impairments, without looking at job tasks to be performed. The underlying assumption is that, from a certain level of severity, all impairments will have a negative impact in most work situations. Under this first approach, employers would, for instance, always be entitled to a wage subsidy if the worker is blind, or deaf or has a severe mental impairment.

A second approach links individual information about impairments to the characteristics of a specific work situation – the job the individual is about to take up or already holds – and assesses the impact of the impairments on performance in this specific context. Depending on the tasks to be performed and the working environment, there may be little or even no impact and, therefore, no reason to grant a wage subsidy. The consequences of impairments may also be mitigated or eliminated by interventions in the work environment (e.g. adaptations to the workplace, equipment and tools or working arrangements, or personal support). These may be covered by dedicated grants or by the wage subsidy. Because this method bases decisions on information about specific job tasks in a specific work situation, it is sometimes termed "concrete assessment" as opposed to the "abstract assessment" used in the first approach. It can be argued that linking impairments to a specific work environment does most justice to the biopsychosocial model. However, abstract assessments are not entirely in conflict with this model provided the impairments giving automatic entitlement to a wage subsidy are those that would cause problems in most work environments if no workplace adaptations were made.

Because they may want to use subsidy entitlement as a "carrot" to convince prospective employers, placement officers often need to decide whether a disabled jobseeker is eligible for a subsidy before this individual has found a job and hence without information about a specific job situation. In this case, abstract assessment is the only method available. Conversely, when a subsidy is granted for a former trainee starting work with the same employer or to promote job retention, the total situation is known, and a concrete assessment becomes possible. In principle, the Belgian CAO-26 scheme was based on concrete assessments, whereas the Flemish VIP scheme relied entirely on abstract assessments. Both methods are used in the current VOP II process. The PES bases eligibility decisions for disabled jobseekers on an abstract assessment using a list of impairments, special school background, available information about employability of people with non-listed impairments, or an external multidisciplinary assessment. For subsidy upgrades or reviews after the first term of five years, a concrete assessment has to be performed. However, it seems quite illogical that applications for workers who have been recruited and sometimes have been employed for years without a subsidy are not subjected to a concrete assessment but are treated in the same way as new applications. This unfortunate "oversight" in the legislation might increase deadweight losses since employers are entitled to a wage

subsidy for all employees eligible on the basis of listed disabilities or a special schooling background, even if their productivity is not reduced at all.

Besides type of assessment, subsidy duration is another important dimension of scheme design. Time-bound targeted subsidies are based on the assumption that the subsidised worker will be fully productive by the time the subsidy expires. This is also what is hoped for in the case of disabled workers, but often it will take much more time before they achieve a “normal” output. Periods of up-to-standards job performance may alternate with bad spells (e.g. for people with psychiatric disorders) and some disabled workers – for instance, people with a mental impairment, may never reach the level of their non-disabled counterparts. It is obvious that a uniform time-limited subsidy scheme cannot cover all these situations (Österle, 1992: 49). For disabled workers, extension subject to review is often necessary.

According to the OECD, the most efficient schemes seem to be those that are “well targeted to the needs of the employer and the employee and flexible over time and in relation to the person’s work capacity (which might be changing over time) so as to allow the employer to test a worker and the PES to lower or cut-off the subsidy quickly when the worker’s productivity has increased” (OECD, 2010: 136). Such tailor-made schemes are in line with the current view of disability not as a stable individual characteristic but as the result of the interaction between impairments, which may evolve, and an environment, which may also change. Subsidies must therefore be adaptable to the situation.

Apart from the basic requirements in the OECD blueprint, preventing deadweight and containing costs calls for careful setting of scheme parameters such as the criteria for eligibility and for entitlement to an extension or upgrade of the subsidy, the subsidy level and maximum amount, the graduation of the subsidy and its pace, accountability and reporting requirements and links with benefit systems and other targeted subsidy schemes. It is impossible to provide more detailed guidelines on scheme design because, just as subsidies need to be tailored to specific circumstances, subsidy schemes should be adapted to the national or regional context, taking into consideration institutional settings, labour market conditions and, especially, other active labour market measures.

Conclusion

The history of the Belgian and Flemish wage subsidy schemes could be seen as a long experimentation leading up to the current system, which has many but certainly not all of the required characteristics. It is tailored to the needs of employers wanting certainty at the point of hiring and reassurance that the subsidy will be adapted to changes in job performance. It also meets the needs of disabled people requiring positive action at the point of entry into the labour market and some protection against disability-related dismissal. For placement agencies, the scheme is a flexible and user-friendly tool, which, as yet, does not put too heavy a burden on the PES administration and budget. A downside is that it is impossible to “lower or cut-off the subsidy quickly when the worker’s productivity has increased”, as required by the OECD, because a first concrete assessment of productivity is only conducted after five years. Although the scheme has a wide scope, not all disabled people are eligible. The maximum subsidy rate (60%) corresponds to a level of work capacity under which people are generally thought to be unfit for regular work and may be referred to sheltered employment. The minimum rate (20%) excludes those whose productivity loss is so minor that they should be able to compete with non-disabled workers, if need be with special provisions, such as special training or workplace adaptations. Therefore wage subsidies occupy a central and vital place in the range of measures to promote the employment of disabled people in Flanders.

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